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SUBJECT: FRANCE - BUSINESS UPDATE

NOT FOR INTERNET DISTRIBUTION

11. (U) This message contains a series of updates on French trade and business news.

France's foreign trade deficit widened in 2005

12. (U) France's trade deficit widened last November, leading many experts to conclude that France is heading for a record shortfall in 2005. They predict that the deficit could be close to 25 billion Euros for the whole of 2005, an all-time record in the history of the French economy. This deterioration in the French trade balance is one of the worst in the Eurozone. In the 25-member EU, only Britain and Spain have bigger trade deficits. French analysts diagnosed that the rising cost of oil imports alone did not explain the growing deficit. Rather, they blamed France's weak exports, which they believe are too dependent on Eurozone markets and not sufficiently focused on more competitive sectors.

Re-negotiating the 35-hour week

13. (U) A growing number of French subsidiaries of foreign companies are asking staff to work longer for no additional pay. In doing so, they are abiding by a relatively new March 2005 law allowing employers to negotiate deals with staff to increase working time by 220 hours a year in return for better pay. The first company to renegotiate working hours with its employees early last year was Bosch's French subsidiary, near Lyon. Nexans, the world's biggest cabling maker, Eurodisney, Aerospace and Defense Group EADS, and most recently Hewlett-Packard have since followed suit. Recently, Hewlett-Packard agreed to reduce the number of job cuts proposed for its French sites from 1,240 to 940, in return for longer working hours. That pressure is set to continue as France's main business organization MEDEF points to the example of neighboring Germany, where a growing number of workers have agreed to receive lower pay in the future, sometimes with longer working hours, in order to keep their jobs.

Outsourcing: a local matter?

14. (SBU) An unusual initiative to monitor outsourcing and deal more effectively with its local social and economic consequences was taken late last year: a new inter-ministerial committee on local competitiveness or CIIACT ("Comite Interministeriel d'Amenagement de Competitivite des Territoires") was established to cover all aspects of local economic development. For example, CIIACT will be responsible for analyzing the consequences of technological changes or changes in regulations on the competitiveness of local businesses. CIIACT will also identify future regional pockets of unemployment or economic growth in order to assess local needs for training. While responsible to the Ministry of the Economy Finance and Industry, CIIACT's novelty lies in its search for local answers to local problems. It is part of a trend begun under the last (Raffarin) government to give more "economic" powers to the regions and departments. Job search and unemployment benefit distribution have already been brought down to the departmental level. A better assessment of local economic needs is but the latest step in that direction.

Reduced sick leave generates unexpected savings

5 (U) As part of on-going efforts to cut health insurance spending, the French Government recently announced that savings generated as of the end of October 2005 stood at nearly 600 million euros. The drop in sick leave unexpectedly accounted for two thirds of the savings. The savings, although lower than the 1 billion euro originally

forecast, is welcome relief, since the non-discretionary public health care budget deficit has aggravated GOF budget problems, and could be expected to continue to put pressure on the rest of the central government budget.

Stapleton